

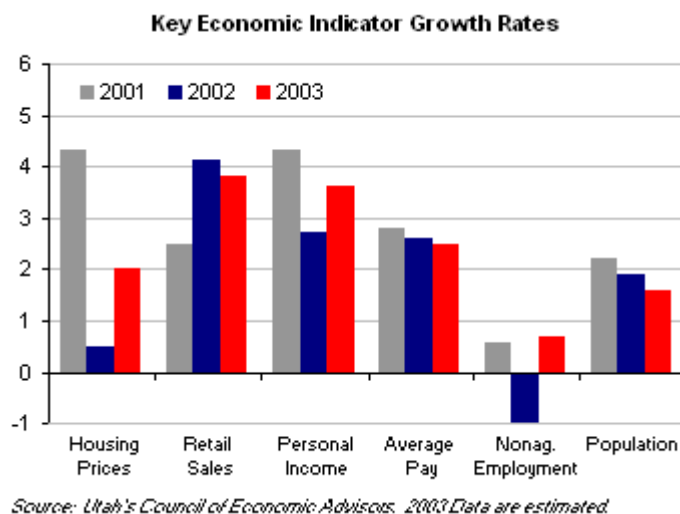
Notes on the Utah Economy

Prepared by the Joint Economic Committee
Robert F. Bennett, chairman

Highlights

Utah's economy slowed significantly in 2002, and most activity mirrored that of the nation. Declines and slowdowns in activity were widespread across various sectors. Sluggish national growth, the end of the 2002 Olympics, and a decline in spillovers to Utah from California all contributed to Utah's slowdown.

Income, exports, construction, housing prices, and population all registered slower growth or even declines last year. Employment fell, job growth was below that of the nation, and the unemployment rate was above. Consumer spending continued to prop up economic growth in Utah, assisted by strong auto sales and home refinancing activity that arose from low and declining interest rates. Forecasters expect that the Utah economy will pick up steam in the second half of this year.



State government revenues have slowed, which has led to budget tightening. Utah looks forward to a surge in public school enrollments as a new baby boom enters school. This will present a funding challenge for the state and local governments.

Jobs and Wages

Utah's nonfarm employment fell 1.0% in 2002, the worst job contraction since 1954. The 2002 rate of job change by industry ranged from -9.2% in construction (partly an Olympic effect) to +5.3% in miscellaneous services. In May of this year, the year-over-year change in nonfarm employment was flat (vs. -0.3% in the U.S.), an improvement over the declines seen in 2002 yet an indication of continued weakness.

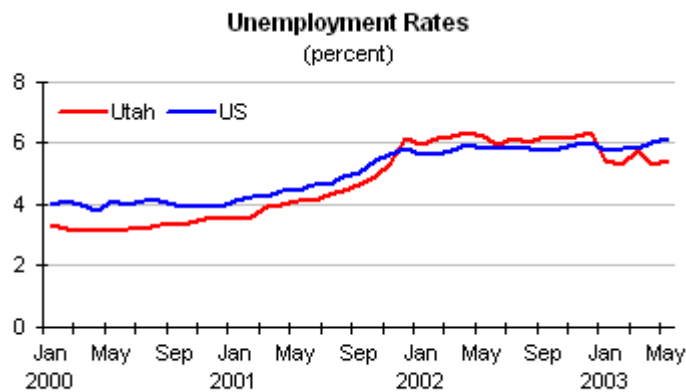


Source: Utah Department of Workforce Services.



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The unemployment rate in Utah increased from 4.4% to 6.0% in 2002, moving to the highest annual rate in a decade. The unemployment rate in Utah rose above that of the nation throughout 2002, but has fallen below the national rate in 2003. In May, the unemployment rate was 5.4% (vs. 6.1% in the U.S.). The Bear River region had the lowest regional unemployment rate (4.1%) in the state and the Southeastern region the highest (8.3%).



Source: Bureau of Labor Statistics.

Utah's average annual nonfarm pay was \$30,400 in 2002, up 2.6% from 2001. Wages have grown faster than inflation for eight consecutive years. Inflation-adjusted median household income showed anemic growth in 2001, the latest period of data availability.^a

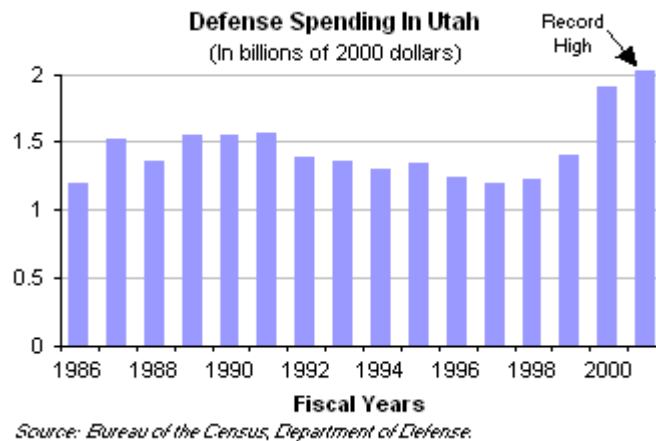
Industry Focus

Defense. The defense industry showed solid growth in 2002. Contributing to the growth were the acceleration of the national military build-up and the base closures and realignments in other states which shifted jobs and military spending to Utah. Hill Air Force Base has become the Air Force's new "center of excellence" for low-observable

^a Many measures of Utah's economic activity are published with significant delays, especially relative to national statistics.

(stealth) technology. This new classification will help sustain defense as a large Utah employer.

Although there were reductions in defense spending in Utah through most of the 1990s, the trend reversed late in that decade. Defense spending was \$2.35 billion in 2001, a 23% rise from the previous year. Increased activity is expected to continue through 2003 as a result of the geopolitical situation.



Energy. Crude oil production in 2002 was less than half that of the peak year of production in 1985. Utah's natural gas capacity, though, has risen steadily over the years, mainly because of an increase in coal bed methane fields.

Utahns were spared the electricity price spikes that faced their West Coast neighbors in 2001. Utah's electricity industry, as in other states, has seen significant changes in federal policy and competition. Looking ahead, consumers will have to brace for higher natural gas prices. Salt Lake-based Questar Co., for example, has asked the Public Service Commission for a 25% rate hike to be effective July 1.

Finance. The financial services industry posted positive job and output growth in 2002. As in the nation, low and declining mortgage interest rates have assisted growth in the industry by fueling a significant amount of financial activity.

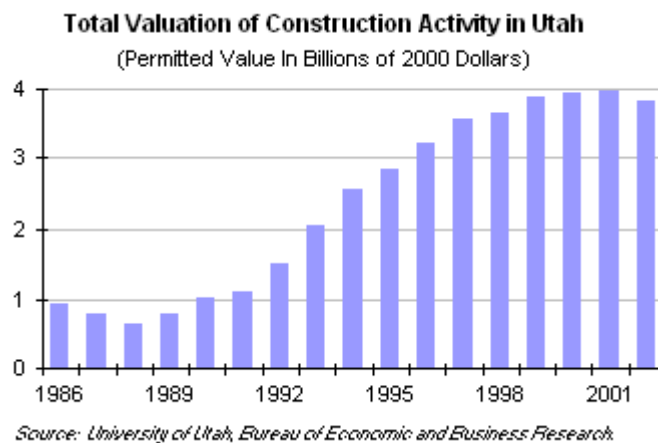
Venture capital activity is down in Utah. From a peak of \$707 million of funding in 1999 (65 deals, 54 companies), venture capital financing fell to \$103 million in 2002 (28 deals, 23 companies). In the first quarter of 2003, venture capitalists placed \$32.5 million in Utah (6 deals, 6 companies). Venture financing has been drying up following the burst of the technology bubble.

Minerals. The value of mineral production in 2002 dropped only slightly from the 2001 value. Nationally, Utah ranked ninth in the value of nonfuel mineral production and 12th in coal production in 2001. The state accounted for around 3.5% of the U.S. total value of nonfuel mineral production in 2001.

Agriculture. Drought and lower prices reduced farm income during 2002. Declines in cattle and milk prices combined with rising input costs, especially feed, resulted in lower incomes. High feed prices had a negative impact on ranchers, but increased incomes of farmers growing grain and hay. A recent surge in the “Mormon cricket” population threatens some crops.

Construction. Construction employment fell by 9% in 2002. Despite the decline, the value of permit-authorized construction fell only 4%. In the first quarter of this year, the permit value increased 8.5% over the same period in 2002. Record low mortgage interest rates have kept construction afloat, mainly by fueling residential building.

The permit value in *residential* construction reached a record high in 2002. And in the first quarter of 2003, the value of permits for construction of new single-family homes and for new apartments and condominiums established a new quarterly record. Continuing a trend from 2002, St. George led all other cities in the construction of single-family homes. The south and west portions of Salt Lake Valley also saw significant numbers of new homes. West Jordan and Orem saw strength in new apartment and condominium permit issues.



Low interest rates boosted residential construction but not the *nonresidential* sector. Nonresidential construction fell 7% in 2002, but activity did gain some strength in the latter half of the year. Nonresidential construction has lagged because of two factors: an oversupply of office, retail and warehouse space, and a lack of new business investment. In May of this year, nonresidential construction was down 36.6% from the year-ago level and 56.6% from two years ago. (In the first quarter of 2003, only two nonresidential projects valued over \$10 million were issued permits—a new Cache County Jail and an office building in Sandy.)

High Tech. The downturn in Utah’s high tech sector that began in 2001 accelerated in 2002. Employment in the tech sector declined by 9% in the first 6 months of 2002, the latest period of data availability. The Progressive Policy Institute has recently ranked Utah the 12th best New Economy.

Governor Leavitt has been active in promoting Utah as a business and high-tech location. In April, 2003 the state launched a \$100 million venture fund intended to accelerate high-tech investment and employment. The fund will attract \$100 million additional capital for early-stage technology companies. The funding comes from private sources, but the state assumes risk by protecting investors from a loss by issuing contingent tax credits. These credits can be used if investors do not receive a 5% to 6% return on their investment in Utah companies. According to the state government, for every \$1 million in venture capital investment, 28 new jobs are created within five years with wages that are 77% above average.

Tourism. Heightened geopolitical tensions, lingering effects of 9-11, and a sluggish national economy all weighed on Utah's travel industry in 2002. A number of cities have responded to declining tourism with aggressive price competition which Utah continues to face. Utah probably has fared better than if there were no Olympics to highlight the state's attractions.

Population

The Utah population continued to grow in 2002 (at a 1.9% rate), but at a slower rate than in 2001 and substantially slower than the boom of the 1990s. The top five counties in terms of population growth were, starting with the fastest grower, Wasatch, Washington, Tooele, Rich, and Utah. Each of those counties also had positive net in-migration (more came than left). Beginning from the slowest, the bottom five counties in population growth were Daggett, Kane, Garfield, Uintah, and Wayne with each showing negative in-migration (more left than came). Salt Lake County, the most populous, placed 17th in population growth and showed negative in-migration.

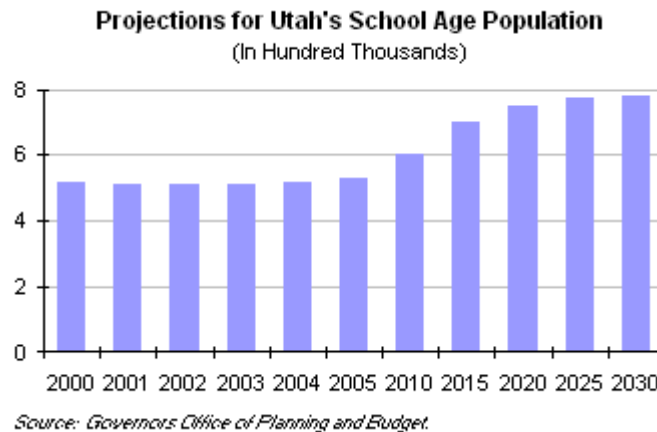
During much of the mid- to late-1990s, Utah benefited from problems in California as companies and workers from that state moved to the Rockies. But in more recent years the in-migration to Utah slowed. Yet even with the completion of the Winter Olympic Games and a sluggish recovery in the national economy, the state experienced its 12th consecutive year of net in-migration in 2002. This helped generate the second longest uninterrupted period of positive net in-migration in Utah since estimates began in 1940.

Because the number of young residents has increased substantially, births have increased to establish new records. The increase in the number of women in childbearing years is primarily the result of Utah's previous baby boom (which peaked in the early 1980s) whose members are coming of age. Also contributing have been the many young job seekers of the 1990s expansion who brought children and continued to have them once they became residents of the state.

Education and the New Baby Boom

Utah ranks near the middle of the states in terms of household income, but is near the bottom in terms of per capita income because children represent a large portion of the population. Correspondingly, Utah ranks near the top compared to other states when measuring the share of total income devoted to education, but ranks as the state with the lowest per-pupil funding.

Over the 1990s, growth in the school age population actually slowed. The 1990s was also the most prosperous decade in 30 or more years, which provided rapid growth in state revenues. The strong economy of that period and slow enrollment growth led to greater total investment in education. However, now that the economy has slowed and the boomer's grandchildren are entering schools, the years ahead promise to be a funding challenge. Utah's local and state governments are bracing for a demographic tidal wave of roughly 20% growth in K-12 enrollment by 2010 (vs. 5% growth in the 1990s, when the education budget nearly doubled).



State Budget

Beginning with fiscal year 2002, the struggling economy generated declines in state revenues causing officials to curtail services, reduce the state workforce, and tap into various reserves, surpluses, and restricted funds. Some taxes and fees have also been raised, and internal fund reallocations have been made.

In June of this year, the federal government transferred \$38 million to Utah as part of the federal jobs and growth tax plan. Congress also recently sent \$7.5 million to help out with Medicaid payments to the poor. These federal infusions helped ensure that the state ends the current fiscal year in the black. This helped the state maintain a AAA bond rating from all three nationally-recognized rating agencies. Utah is one of only eight states with such a rating from all three major rating agencies. This allows the state to borrow at low interest rates; a 10-year Utah bond yielded 2.92 percent in June, vs. a yield of about 3.10 percent on a 10-year Treasury note. Utah has not bonded at such low interest rates for over 38 years.